

Message Text

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ACTION ARA-14

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 5720

AMCONSUL RECIFE IMMEDIATE

C O N F I D E N T I A L KINGSTON 3010

DEPARTMENT PASS AID FOR DONOR LION

MRS. CARTER'S PARTY FOR ASSISTANT SECRETARY TODMAN ONLY

E.O. 11652: XGDS-3

TAGS: EAID, EFIN, PFOR, JM, US

SUBJECT: ASSISTANCE AND POLICY: ARE WE WRITING OFF JAMAICA?

REF: A. ACTION MEMORANDUM DATED MAY 21, 1977 FROM ARA TO
SECSTATE B. KINGSTON 2353

APPROVAL WAS GIVEN IN THE REFERENCED ACTION MEMORANDUM
FOR A \$50 MILLION ASSISTANCE PACKAGE FOR JAMAICA CONSISTING
OF DEVELOPMENT LOANS, HOUSING INVESTMENT GUARANTEES AND PL-
480 DURING THE FY 77 AND 78 PERIOD. THE PACKAGE ADDRESSES
LONG TERM DEVELOPMENT AND BOP NEEDS, AND WILL HAVE ITS INITIAL
EFFECT IN CY 1978.

2. JAMAICA'S NEEDS ARE URGENT, AND THE ASSISTANCE PACKAGE
AS APPROVED FAILS TO MEET THEM IN TERMS OF IMMEDIACY,
AMOUNT AND EXPECTATIONS. THE APPROVED PROGRAM ROUGHLY
EQUATES WITH THE EMBASSY'S "MODES EXPANSION OPTION"
(SCENARIO III) IN REFTEL B. BY OUR READING, THE
PAPER CONTAINED NO OPTION WHICH WOULD HAVE BEEN
EITHER ADEQUATE OR SUFFICIENTLY TIMELY. AS THE
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REFERENCED ACTION MEMORANDUM POINTS OUT, JAMAICA FACES
AN UNFINANCEABLE FOREIGN EXCHANGE SHORTFALL OF \$70
MILLION IN THE THIRD QUARTER OF THIS CALENDAR YEAR.
THE APPROVED ASSISTANCE PACKAGE WOULD
YIELD ONLY \$10 MILLION DURING THIS PERIOD LEAVING
A CONTINUED SHORTFALL OF \$60 MILLION. (IMF STANDBY
CREDITS AND TRINIDADIAN ASSISTANCE HAVE ALREADY

BEEN TAKEN INTO ACCOUNT IN THESE FIGURES.) IN SHORT, THE PROGRAM, AS APPROVED, IS MERELY COSMETIC IN TERMS OF JAMAICA'S IMMEDIATE ECONOMIC CRISIS-- AND ONLY BARELY SO-- AND THERE IS LITTLE DOUBT THAT IT WILL BE SO PERCEIVED BY THE GOJ WHEN IT IS INFORMED OF OUR DECISION.

3. THERE WILL BE TWO IMMEDIATE CONSEQUENCES:

A. ECONOMICALLY, THE GOJ WILL HAVE TO TAKE IMMEDIATE MEASURES TO RESTRICT ITS IMPORTS FURTHER IN ORDER TO STAY WITHIN NEW MORE STRINGENT FOREIGN EXCHANGE CONSTRAINTS. THIS MUST INEVITABLY MEAN A CUTBACK OR TOTAL ELIMINATION OF RAW MATERIAL IMPORTS, CAUSING MAJOR LAYOFFS AND CLOSE-DOWNS IN THE MANUFACTURING SECTOR. IT IS ALSO PROBABLE THAT THE GOJ WILL BE FORCED INTO DEBT RESCHEDULING-- OR OUTRIGHT DEFAULT-- ON ITS EXTANT COMMITMENTS. EVEN WITH COMMERCIAL BANK AND BILATERAL LENDER ROLL-OVERS, AND A DRASTIC CUTBACK IN IMPORTS, THE GOJ CAN SURVIVE BANKRUPTCY IN THE THIRD QUARTER ONLY WITH THE GREATEST DIFFICULTY.

B. POLITICALLY, PRIME MINISTER MANLEY WILL FACE A SERIOUS DILEMMA. FROM DEC 15, 1976 TO MARCH 27 THE SMALL BUT ENERGETIC RADICAL LEFT FACTION IN HIS RULING PNP DOMINATED THE NEW GOVERNMENT. THE RADICALS PROPOSED A PROGRAM OF "SELF-RELIANCE", THIS PROGRAM, PREDICATED ON ALMOST TOTAL AUSTERITY, WOULD HAVE RELIED HEAVILY ON COMECON ASSISTANCE. THE RADICALS FAILED TO CONSOLIDATE THEIR GAINS: NO

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COMECON SUPPORT WAS FORTHCOMING AND THEIR PROGRAM LACKED FOCUS AND COHERENCE. AT THE MARCH 26-27 OCHO RIOS PNP PARTY CONFERENCE, THE PARTY TURNED AWAY FROM THE RADICALS AND RETURNED TO THE MORE PRAGMATIC PROPOSALS OF THE MODERATES. THEN SUBSEQUENTLY, THE GOJ REFLECTING THE ASCENDANCY OF THE MODERATES, HAS GONE TO THE IMF AND IT HAS COME TO THE US. AS OF NOW IT WOULD APPEAR THAT THE MODERATES, TOO, WILL BE ACCUSED OF COMING BACK EMPTYHANDED. IN THE AFTERMATH OF THE VANCE-PATTERSON UNDERSTANDINGS, THE VISIT TO JAMAICA BY AN ECONOMIC TECHNICAL TEAM AND THE VISIT BY MRS. ROSALYNNE CARTER, AN ASSISTANCE PACKAGE SUCH AS THAT APPROVED IN THE REFERENCED ACTION MEMORANDUM WILL COME AS A SEVERE SHOCK TO THE GOJ. THE EXACT CHARACTER OF PRIME MINISTER MANLEY'S REACTION IS DIFFICULT TO PREDICT, BUT THERE IS SOUND REASON TO CONCLUDE THAT HE WILL TURN AWAY FROM THE MODERATES. IF THE MODERATES ARE SHOWN TO BE

INCAPABLE OF MARSHALLING ADEQUATE FOREIGN ASSISTANCE, THE ADVANTAGE WILL RETURN TO THE RADICALS. THEY WILL BE THE ONLY POLITICAL FORCE IN THIS COUNTRY WITH A PLAN--AND A TASTE--FOR IMPOSING THE TOTAL AUSTERITY WHICH JAMAICA WILL REQUIRE.

4. IF IT IS IN OUR INTEREST TO ASSIST JAMAICA-- AND WE ARE PERSUADED THAT THERE ARE BILATERAL, REGIONAL AND EVEN GLOBAL REASONS TO DO SO--THE PACKAGE CONTAINED IN THE ACTION MEMORANDUM IS TOO LITTLE AND ITS LIMITED EFFECT WILL BE TOO LATE. WE WOULD HAVE EXPECTED THAT THE ACTION MEMORANDUM'S OPTIONS--SURPRISINGLY NARROW IN OUR VIEW-- WOULD HAVE INCLUDED FULL CONSIDERATION OF (A) PROGRAM ASSISTANCE AND (B) TREASURY EXCHANGE STABILIZATION FUNDS. WE UNDERSTAND FULLY HOW DIFFICULT IT WILL BE TO GAIN APPROVAL FOR THESE TWO OPTIONS. NEVERTHE-
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LESS, THE ASSISTANCE PROGRAM AS APPROVED FALLS SO SHORT OF SERVING EITHER OUR INTERESTS OR JAMAICA'S NEEDS AND EXPECTATIONS THAT ITS POSITIVE ECONOMIC AND POLITICAL EFFECTS WILL, AT BEST, BE ONLY MARGINAL.

DORRANCE

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